

**A***udit*

**R***eport*



DEPOT-LEVEL REPAIR OF FOREIGN MILITARY SALES ITEMS

Report Number 99-174

June 3, 1999

Office of the Inspector General  
Department of Defense

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### **Acronyms**

CSRS	Civil Service Retirement System
DFAS	Defense Finance and Accounting Service
FERS	Federal Employee Retirement System
FMS	Foreign Military Sales
OMB	Office of Management and Budget
OPM	Office of Personnel Management
USD(C)	Under Secretary of Defense (Comptroller)



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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June 3, 1999

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL  
MANAGEMENT AND COMPTROLLER)  
ASSISTANT SECRETARY OF THE AIR FORCE  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Depot-Level Repair of Foreign Military Sales Items  
(Report No. 99-174)

We are providing this report for review and comment. The Army did not respond to the draft report; however, we considered management comments from the Under Secretary of Defense (Comptroller), the Navy, the Air Force, and the Defense Finance and Accounting Service in preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. Therefore, we request that the Army provide comments on Recommendation 2.; the Navy provide additional comments on Recommendations 4. and 6.; and the Air Force provide comments on Recommendation 6. by July 7, 1999.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Ms. Evelyn R. Klemstine at (703) 604-9172 (DSN 664-9172), e-mail [eklemstine@dodig.osd.mil](mailto:eklemstine@dodig.osd.mil), or Mr. Warren G. Anthony at (703) 604-9611 (DSN 664-9611), e-mail [wanthony@dodig.osd.mil](mailto:wanthony@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

*David K. Steensma*

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Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 99-174  
(Project No. 8LG-0038)

June 3, 1999

### Depot-Level Repair of Foreign Military Sales Items

#### Executive Summary

**Introduction.** The depot-level repair program includes repair and upgrade of aircraft and other systems and equipment in either DoD or contractor facilities. Execution of the depot repair program involves advance notification of turn-in of a repair item, receipt and induction of the requested repair into the repair production cycle, inspection and evaluation of an item to verify the extent of repairs needed, repair of the item, and shipping it to a designated location.

The Foreign Military Sales (FMS) Program is an element of the Defense Security Cooperation Agency (formerly the Defense Security Assistance Agency). FMS includes government-to-government sales of Defense articles or services from DoD organizations or through procurements under DoD-managed contracts; and the Arms Export Control Act requires recovery of the full cost of those sales. For FYs 1997 and 1998, there were \$1 billion in FMS depot-level repair sales of the total of \$13.3 billion in depot repairs, about 8 percent of all DoD depot-level repair work.

**Objectives.** The overall audit objective was to evaluate the policies and procedures related to the operation of the FMS depot-level repair program. The specific objective for this audit was to determine whether FMS items accepted into the program were properly accounted for and whether items were being repaired or replaced in a timely manner. In addition, we reviewed the depots' methodology for computing unfunded civilian retirement and postretirement health benefits costs. We also reviewed the management control program as it related to our audit objectives.

**Results.** The policies and procedures used by the Military Departments for the FMS depot-level repair program were properly implemented and executed. Based on our review, items accepted into the program were being properly accounted for and were repaired and returned or replaced in a timely manner (finding A).

The Under Secretary of Defense (Comptroller) published an inappropriate methodology and the Military Departments used inconsistent and inappropriate methodologies for computing unfunded civilian retirement and postretirement health benefits costs charged to FMS customers at nine repair depots that we reviewed. As a result, for each FMS requisition billed, the Army repair depots may have overcharged FMS customers by as much as 99 percent, the Navy repair depots may have overcharged FMS customers by as much as 59 percent, and the Air Force repair depots may have overcharged by about 2 percent and undercharged by as much as 66 percent, for unfunded civilian retirement and postretirement health benefits during FY 1998. Although the absolute amounts of the inaccurate charges could not be accurately determined, especially on an individual FMS customer-country basis, the precision of the calculations and billings need to be improved (finding B).

The management controls that we reviewed were adequate as they applied to the audit objectives in that no material weaknesses were identified (see Appendix A).

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller) adopt the Office of Management and Budget and Office of Personnel Management methodologies for computing unfunded civilian retirement and postretirement health benefits costs and issue new procedures to the Military Departments requiring the use of those methodologies. We recommend that the Commander, Army Materiel Command program the procedures issued by the Under Secretary of Defense (Comptroller) for computing unfunded civilian retirement and postretirement health benefits costs into the Standard Depot System. We recommend that the Director, Defense Finance and Accounting Service program the procedures issued by the Under Secretary of Defense (Comptroller) for computing unfunded civilian retirement and postretirement health benefits costs into the Defense Industrial Financial Management System. We recommend that the Army, the Navy, and the Air Force rescind established guidance for computing unfunded civilian retirement and postretirement health benefits costs and adopt the new procedures of the Under Secretary of Defense (Comptroller). We recommend that the Navy and Air Force provide sufficient oversight to ensure that depot computations for unfunded civilian retirement and postretirement health benefits costs are consistent with the Under Secretary of Defense (Comptroller) guidance.

**Management Comments.** The Army did not comment on the draft report. The Office of the Under Secretary of Defense (Comptroller) generally concurred with the report and the specific recommendations. The Defense Finance and Accounting Service concurred with the recommendation to program the methodology for computing unfunded costs. It stated that it will direct its central design agency to program the appropriately revised Under Secretary of Defense (Comptroller) methodology into its Defense Industrial Financial Management System. The Navy nonconcurred with the finding, stating that the finding did not reflect official Navy policy. The Navy concurred with both recommendations, stating that it had forwarded guidance from the Under Secretary of Defense (Comptroller) for recovering unfunded civilian retirement to its major commands. It stated that the Under Secretary of Defense (Comptroller) guidance rescinded Navy guidance. The Navy also stated that guidance for activities under the cognizance of the Chief of Naval Operations will be implemented under our recommendation that the Navy rescind that portion of its Comptroller manual dealing with computing civilian retirement and establish the methodology established by the Under Secretary of Defense (Comptroller). The Air Force concurred with the audit findings and agreed to rescind current Air Force Materiel Command guidance and adopt the guidance to be established by the Under Secretary of Defense (Comptroller). A discussion of management comments is in the Findings section of the report and the complete text is in the Management Comments section.

**Audit Response.** Comments from the Office of the Under Secretary of Defense (Comptroller) and the Defense Finance and Accounting Service were responsive. The Navy comments were nonresponsive. The Navy did not implement the Under Secretary of Defense (Comptroller) guidance and did not provide sufficient oversight to ensure that proper guidance was implemented. Therefore, we believe that the Navy should rescind Navy Comptroller Manual, volume 5, when it adopts and disseminates the revised Under Secretary of Defense (Comptroller) guidance. The Air Force's comments were partially responsive; however, the Air Force failed to address the recommendation on oversight implementation. We request that the Army, the Navy, and the Air Force provide comments in response to the final report by July 7, 1999.

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## Background

**Depot-Level Repair Program.** Depot-level repairs are typically conducted at DoD-owned depots or at contractor plants. The depot-level repair program includes modifying, overhauling, repairing, and upgrading aircraft, ships, tracked and wheeled vehicles, and other systems and equipment. It also includes limited manufacture of parts, modifications, reclamation, software maintenance, and technical support as well as testing. Execution of the depot-level repair program involves advance notification of turn-in of a repair item, receipt and induction of the requested repair into the repair production cycle, inspection and evaluation of an item to verify the extent of repairs needed, repair of the item, and shipping it to a designated location. The Army, the Navy, and the Air Force (hereafter referred to as the Military Departments) own and operate their own organic repair depots that provide a ready and controlled source of repair and maintenance to DoD and Foreign Military Sales (FMS) customers. The Military Departments maintain organic depot-level repair facilities to provide the required capabilities essential to each Military Department's mission. The Military Departments estimate that about 60 percent of their expenditures for depot-level maintenance work are performed at organic repair depots and the remaining 40 percent are by contract. For FYs 1997 and 1998, there were \$1 billion in FMS depot-level repair sales from a total of \$13.3 billion in depot repairs, about 8 percent of all DoD depot-level repair work.

**Foreign Military Sales Program.** Public Law 90-629, "The Arms Export Control Act," October, 22, 1968, gives the President authority to sell Defense articles and services to eligible foreign countries, normally at no cost to the U.S. Government. The FMS Program, includes government-to-government sales of Defense articles and services from DoD organizations or through procurements under DoD-managed contracts. The Arms Export Control Act requires that letters of offer and acceptance (cases)<sup>1</sup> for the sale of Defense articles or services shall include all applicable charges to recover the full cost of sales under the Act. The Defense Security Cooperation Agency has the overall responsibility for administering the FMS program, and the Military Departments execute the program.

**FMS Depot-Level Repair Cases.** The FMS depot-level repair program was established to provide a method of follow-on support by providing a foreign country the means of obtaining repair services without the necessity of establishing in-country capability. FMS depot-level repair cases are FMS letters of offer and acceptance for the scheduled maintenance, repair and return, or repair and replacement of components, modules, or parts for major end items such as aircraft, ships, and tanks. Repairs are made at organic Military Department repair depots or contractor facilities.

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<sup>1</sup> A letter of offer and acceptance is a contract between the U.S. Government and a foreign government, in which the foreign government agrees to allow U.S. Government representatives to act on its behalf to procure Defense articles and services.

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**Repair and Return Concept.** Under a repair and return concept, the foreign country sends its repairable FMS items to a Military Department repair depot for induction into the repair cycle or the items are forwarded to a contractor plant, repaired, and returned to the foreign country. All the Military Departments use repair and return cases and bill the foreign countries for actual costs incurred during the repair of the items.

**Repair and Replace Concept.** Under a repair and replace concept, sometimes called direct exchange, the foreign country sends its repairable FMS items to a Military Department repair depot and if the items are determined to be economically repairable, a serviceable replacement item is issued to the country from the Military Departments inventory. The depot either repairs the item or sends it to a contractor for repair. After repair, the item is returned to inventory for issue as a serviceable item. The countries are charged a fixed cost for the replacement item and are sometimes given a credit for the repairable item. The Navy and the Air Force offer this type of repair concept. The Army does not, citing a safety of flight issue as the primary reason.

**Billing FMS Cases.** The DoD Financial Management Regulation prescribes the financial management requirements, systems, and functions that are to be followed when establishing prices and billing FMS customers. After a letter of offer and acceptance is accepted, the foreign country is generally required to pay, in advance, amounts necessary to cover costs associated with the sales agreement. DoD then uses those funds, held in trust by the Department of the Treasury, to pay private contractors and to reimburse DoD organizations for the cost of executing and administering the FMS agreement and repair requisition. For FMS repair cases that are performed in organic depot-level repair facilities, the Military Departments initially absorb the repair costs in their Working Capital fund until the repairs have been completed. Upon completion, the Military Departments report the accumulated costs to the Defense Finance and Accounting Service (DFAS) for billing and reimbursement from the FMS customers trust fund account. DFAS reimburses the Military Departments from advance funds held on deposit in the FMS Trust fund and bills the FMS customers trust fund for full reimbursement of direct labor, material, overhead, and unfunded civilian retirement costs and postretirement health benefits costs that were incurred in administering and executing the FMS repair requisition. The Military Departments Working Capital fund is reimbursed for all repair requisition costs for FMS repair cases that organic repair depots perform.

For FMS repair cases that contractors perform, a fully funded contract is awarded to the contractor, citing the respective accounting and appropriation data. A copy of the contract is also issued to DFAS. Funds are obligated against the contract line items that cite the respective accounting and appropriation data. When a contractor delivers a respective repaired unit, the contractor then submits a DD Form 250, "Material Inspection and Receiving Report," to DFAS. DFAS verifies the respective unit amount against the internal cost tracking system (FMS appropriation line).



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## Objectives

The overall audit objective was to evaluate the policies and procedures related to the operation of the FMS depot-level repairable program. The specific objective for this audit was to determine whether FMS items accepted into the program were properly accounted for and whether items were being repaired or replaced in a timely manner. In addition, we reviewed the depots' methodology for computing unfunded civilian retirement and postretirement health benefits costs. We also reviewed the management control program as it related to our audit objectives. See Appendix A for a discussion of the scope, the methodology, and our review of the management control program and for a summary of prior coverage related to the audit objective.

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## **A. Implementing the Foreign Military Sales Depot-Level Repair Program**

Based on our review of three repair depots for FMS customers, policies and procedures generally were properly implemented and executed. FMS items accepted by the three repair depots were adequately accounted for and were repaired and returned or replaced in a timely manner. FMS items received the same workload priorities as Military Department items. Inspection procedures were adequate to identify all necessary repairs, and safety of flight issues were not compromised. However, the Military Departments used inconsistent methods for computing unfunded civilian retirement and postretirement health benefits costs (see finding B).

### **Depot-Level Repair Procedures**

Depot policy and procedures at the three repair depots reviewed were adequate for tracking FMS items through the repair process, for accounting for FMS repairable items, prioritizing FMS items in need of repair, establishing time standards to repair FMS items, inspecting FMS items, and resolving safety of flight issues. The three repair depots we reviewed were Corpus Christi Army Depot, Texas; Navy Depot Jacksonville, Florida; and San Antonio Air Logistics Center, Texas. The Military Departments owned and operated the Corpus Christi Army Depot and the Navy Depot Jacksonville. The San Antonio Air Force Logistics Center primarily was contractor operated with minimal organic repair. The three repair depots received about \$52.8 million for the repair of FMS components, modules, and parts for major aircraft end items during FYs 1997 and 1998. We did not review any Marine Corps depots because they were not repairing FMS components, modules, and parts for major aircraft end items.

**Tracking FMS Through the Depot-Level Repair Process.** The tracking of FMS customers repair and return items through the depot-level repair process was adequate. At each repair depot reviewed, FMS and Military Department repair items were initially processed into the repair cycle together using the standard depot processing system. However, FMS items were tracked separately through the repair cycle using stand-alone database systems. The FMS program managers stated that FMS repairs were tracked separately because the depots standard processing systems were either limited in providing adequate tracking capability for FMS items, or the countries requirements for wanting the same item returned that was turned in for repair made special tracking necessary.

As of December 1998, the Military Departments used stand-alone computer systems or spreadsheets to track the status of FMS repair and return items, because available integrated systems were either limited in their application or did not link with appropriate organizations. At the Corpus Christi Army Depot, the FMS repair items were tracked using a spreadsheet that was prepared by the

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collocated Defense Logistics Agency Distribution Depot.<sup>2</sup> At the Navy Depot Jacksonville, the FMS component scheduler used a stand-alone database system to track FMS repair items through the depot repair process. At the San Antonio Air Logistics Center, the contractor for DoD used a stand-alone spreadsheet for tracking FMS repairs. To provide for life cycle management of all FMS cases and functions, the Defense Security Cooperation Agency is developing the Defense Security Assistance Management System. One of the functions of the system will be to provide the tracking and management needed for the depot-level repair process, which will include tracking from the preparation of requisitions to delivery of repairables back to the customers. This tracking should provide for adequate integration and replacement of existing maintenance stand-alone depot systems.

**Accounting for FMS Repairable Items.** The three repair depots visited maintained an adequate system of accounting for FMS repairable items. We judgmentally sampled 43 repairable items valued at \$11.3 million. Our review could not account for three of the sampled items. At the Air Force repair depot, 3 of 13 sampled items were not on the record of repair and return at the Air Force Security Assistance Command. Additionally, although the Air Force repair depot had a record of the 13 sampled items being repaired, a lag in document processing time at its Security Assistance Command was the cause for the 3 items not being recorded. We did not find any discrepancies with the 22 items sampled at the Corpus Christi Army Depot or the 8 items sampled at the Navy Depot Jacksonville.

**Prioritizing Items for Repair.** The Uniform Material Movement and Issue Priority System, which the three repair depots used for Military Department and FMS items, provided assurance that more urgent repair requirements were completed before routine repairs. The priority indicates the military importance of the organization that owns the repairable item and the urgent need of the item. FMS customer items received the same workload priority as Military Department items. According to personnel at the repair depots, depot workload priorities were determined through the Uniform Material Movement and Issue Priority number on the turn-in or shipping document combined with:

- historical knowledge of the item criticality,
- the FMS customer,
- documentation provided with the item, and
- coordination with the DoD item managers; the depot FMS program manager; and the FMS customer.

Based on our review of the depot induction process, FMS items received the same treatment as DoD items.

**Establishing Time Standards for Repair Items.** The same time standards that were used to project Military Department repairs were used for FMS customer repairs. The Military Departments established no formal repair time standards

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<sup>2</sup> The Defense Logistics Agency Distribution Depot was responsible for receiving, distributing, and shipping all items arriving at the depot for repair.

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for organic depot-level repairs of major weapon system end items. Each repair depot developed informal repair time standards and used them to project planning, repair scheduling, and monitor the repair items from their induction into the repair cycle to completion. The standards were also used to support repair price estimates, availability requests, and the scheduling of repairs. The estimated repair cycle time varied depending on the item being repaired and the extent of the repair.

Based on our sample of 43 repair items, at two of the three repair depots, the estimated standards for repair cycle time were exceeded. At the Corpus Christi Army Depot, helicopter engine overhauls were estimated to use an average repair cycle time of 120 days. However, the overhaul of FMS customer helicopter engines took an average of 201 days. At the Navy Depot Jacksonville, the average repair cycle time of 90 days was used to estimate aircraft engine component repairs for the Military Departments and FMS. However, the repairs took an average of 154 days. Although the average repair cycle times were exceeded for our sample items, legitimate reasons existed for those repairs not being completed within the time standard. At Corpus Christi Army Depot, the average repair cycle time was exceeded because Third World countries shipped incomplete engines or more engines than the countries funds allowed to be repaired, requiring the depot to delay repairs while waiting for additional parts and funds. At Navy Depot Jacksonville, the average repair cycle time was exceeded because personnel suspended work awaiting additional funds, materials for a unique repair, or FMS country submission of additional item repair history information. The repairs for our 13 sampled repair items at San Antonio Air Logistics Center comprised engines, modules, and components and were all completed by a contractor who determined his own repair cycle time estimates. A review of the repair contract did not disclose any contractual clauses requiring the contractor to maintain specific repair time requirements, such as the estimated repair cycle time standards maintained at Corpus Christi Army Depot and Navy Depot Jacksonville.

**Procedures for Inspecting FMS Items.** Inspection procedures for FMS repair items, at the repair depots reviewed were adequate to identify all necessary repairs. All FMS repair items received and accepted were inspected numerous times throughout the repair process. Inspections were conducted in accordance with applicable technical directives maintained at the repair depots. The Defense Logistics Agency distribution depots, which are collocated at the repair depots, initially inspected the FMS repair items to determine whether all necessary documentation was included. When repairable items were placed on the repair line, personnel evaluated and examined them to verify that the condition and the work to be performed matched the repair requisition documentation included with the items. Additional follow-on assessments were conducted on the items as they were processed through the repair cycle to verify that the initial evaluation and examination were valid. Throughout the repair cycle, any discrepancies identified were reported to the FMS program manager and corrected before continuation of the repair.

The repair requisition documentation showing the condition of FMS items submitted for repair usually differed from the actual condition when items were inspected at the repair depot. Specifically, the Army and the Navy depots cited

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differences in the actual condition and quantities of items returned by the countries, compared with the documented requisition conditions and quantities, as the two most prevalent discrepancies identified during the inspection process. Those discrepancies were usually experienced with Third World countries and with countries known to provide inaccurate information.

At the Air Force depot, a contractor repaired and returned the sampled items. The contractor performed the inspections and determined the required repairs. The Defense Contract Management Command provided contracting oversight for FMS items.

**Resolving Safety of Flight Issues.** Policies and procedures were established to effectively manage FMS items received under the direct exchange (repair and replace) program. We identified no negative issues regarding safety of flight for critical items repaired under the direct exchange program at the Military Department repair depots we visited. As previously stated, the Army cited safety of flight concerns as justification for not implementing a repair and replace program. We judgmentally sampled 25 repair items, valued at about \$665,000, that were on the Army critical item list, to validate that safety of flight items were not being repaired and replaced at the Corpus Christi Army Depot for FMS customers. None of the 25 sampled items were repaired at the depot. The Navy and the Air Force did not prohibit FMS items from entering their inventories under the repair and replace program. However, the Navy stated that FMS customers had never requested repair and replace exchanges and the Air Force had established adequate procedures to ensure that historical data, such as flying hours and performed maintenance, were obtained for critical items previously used by FMS customers.

## Summary

The FMS depot-level repair program was effectively implemented and executed at three sampled repair depots. DoD and Military Department policies and procedures were adequate to provide proper control and tracking of FMS items received for repair. Informal procedures were established to provide necessary controls to prioritize repair workloads and to complete repairs. FMS repair items were received, processed, and repaired the same as Military Department repair items. The inspection functions of the Military Departments provided adequate accountability of necessary repairs. Military Department policies provided for the control over items received under the direct exchange program.

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## **B. Recouping Unfunded Civilian Retirement and Postretirement Health Benefits Costs**

The Office of the Under Secretary of Defense (Comptroller) (USD[C]) published an inappropriate methodology and the Military Departments used inconsistent and inappropriate methodologies for computing unfunded civilian retirement and postretirement health benefits costs charged to FMS customers at repair depots. The methodologies USD(C) and the Military Departments used were inappropriate because USD(C) relied on Office of Management and Budget (OMB) Circular No. A-76, not on OMB Circular No. A-11 and Office of Personnel Management (OPM) Financial Management Letter F-98-07. In addition, USD(C) and the Military Departments had different percentages for computing unfunded civilian retirement and postretirement health benefit costs. Also, the Navy and the Air Force had not provided sufficient oversight of their depots to ensure that consistent methodologies and rates were used for unfunded civilian retirement and postretirement health benefits costs. As a result, for each FMS requisition billed, the Army may have overcharged FMS customers by as much as 99 percent, the Navy repair depots may have overcharged FMS customers by as much as 59 percent, and the Air Force repair depots may have overcharged FMS customers by about 2 percent and undercharged FMS customers by as much as 66 percent for unfunded civilian retirement and postretirement health benefits costs during FY 1998. Although the absolute amounts of the inaccurate charges could not be accurately determined, especially on an individual FMS customer-country basis, the precision of the calculations and billings need to be improved.

### **Computation Guidance**

**OMB Circular No. A-76.** OMB Circular No. A-76, Revised Supplemental Handbook, "Performance of Commercial Activities," March 1996, chapter 2, provides the policies and procedures used for determining cost comparisons between in-house (agency), contract, or interservice support agreement performance. In addition, the circular states in part, that the standard retirement cost factor is estimated and represents the Federal Government's complete share of the weighted Civil Service Retirement System (CSRS) and Federal Employee Retirement System (FERS) retirement costs to the Government. The retirement cost factor would be based on the normal cost of the retirement systems and the normal cost of accruing retiree health benefits based on average participation rates, Social Security, and Thrift Savings Plan contributions. In addition, it would require the 1996 rate of 23.7 percent of base payroll to be used by all agencies for determining civilian retirement costs.

**OMB Circular No. A-25.** OMB Circular No. A-25, "User Charges," July 8, 1993, states that the full cost for providing goods and services to the public be recovered. The full cost includes all direct and indirect costs to any

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part of the Federal Government that provides the goods and services. Direct and indirect personnel costs, including salaries and fringe benefits and retirement costs should include all (funded and unfunded) accrued costs not covered by employee contributions, as specified in OMB Circular No. A-11, "Preparation and Submission of Budget Estimates," 1998 (OMB Circular No. A-11).

**OMB Circular No. A-11.** OMB Circular No. A-11, section 12.5, "Estimates Relating to Specific Objects of Expenditure," subsection (e), "User Fees," and subsection (i), "Federal Employee Retirement" states that in determining the full cost recovery, user fee estimates should reflect retirement costs related to goods and services provided. For CSRS employees, costs should be estimated at 17.2 percent of base pay; cost related to FERS employees should be estimated at 10.7 percent. Of the 17.2 percent CSRS employee costs, an agency contributes 8.51 percent (funded) and the remaining 8.69 percent is unfunded<sup>3</sup>. For FERS employees, an agency contributes the full 10.7 percent; therefore, the entire amount is considered funded. OMB Circular No. A-11 does not prescribe a methodology for determining postretirement health care benefits costs.

**OMB Financial Accounting Standards Advisory Board Statement 5.** OMB Financial Accounting Standards Advisory Board Statement 5, "Accounting for Liabilities of the Federal Government," September 1995, paragraph 178 states, in part, that employees service costs should be calculated differently for postretirement health benefits than CSRS and FERS retirement costs. Civilian retirement costs are to be calculated as a percent of payroll; however, postretirement health benefits costs are to be calculated on a per employee basis.

**OPM Financial Management Letter F-98-07.** OPM Financial Management Letter F-98-07, "1998 Cost Factors for Pension and Other Retirement Benefits Expenses," October 19, 1998, (OPM Financial Letter F-98-07) provides the FY 1998 methodology for computing postretirement health benefits costs. The FY 1998 postretirement health benefits cost factor is identified as \$2,529 per employee enrolled in the Federal Employees Health Benefits program.

**USD(C) Memorandum.** On August 27, 1997, USD(C) issued a memorandum providing guidance to the DoD Components on the methodology to use to compute unfunded civilian retirement and postretirement health benefits costs. The guidance stated, "effective immediately, the standard (stabilized) price or rate<sup>4</sup> charged FMS and non-federal customers of DoD [W]orking [C]apital fund activities [organizations] for Defense articles and services shall be adjusted to include an amount for unfunded civilian retirement and postretirement health benefits costs." The memorandum also directed DoD Components to compute the unfunded civilian retirement and postretirement health benefits costs by

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<sup>3</sup> Unfunded civilian retirement costs are costs not funded by DoD appropriations.

<sup>4</sup> The standard price is the price customers are charged when purchasing DoD managed items. The stabilized rate normally consists of direct labor, direct material, general and administrative expenses, indirect labor, overhead, and unfunded costs. Other cost factors could be included and are determined by the depot.

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multiplying the civilian salary<sup>5</sup> and overtime costs (not including benefits), included in the standard (stabilized) price or rate, by 16.7 percent for unfunded civilian retirement and postretirement health benefits costs.

## **USD(C) and Military Department Methodologies for Determining Unfunded Costs**

The methodologies published by USD(C) and used by the Military Departments for determining unfunded civilian retirement and postretirement health benefits costs were inappropriate because the computations included cost factors inconsistent with OMB Circular No. A-11 and OPM Financial Letter F-98-07 guidance. In addition, the methodologies included different percentages for computing unfunded civilian retirement and postretirement health benefits costs.

**USD(C) Methodology.** The methodology USD(C) published to compute unfunded civilian retirement and postretirement health benefit costs was inappropriate because USD(C) relied on OMB Circular No. A-76 and not on OMB Circular No. A-11 and OPM Financial Letter F-98-07. The USD(C) methodology includes inappropriate costs, such as overtime for calculating unfunded civilian retirement and postretirement health benefit costs. The methodology in OMB Circular No. A-76 was a composite of CSRS and FERS methodology that included the costs of the retirement systems and Thrift Savings Plan contributions. In addition, USD(C) computed postretirement health benefits costs as a percentage factor included in the CSRS and FERS composite rate instead of a fixed cost per employee as provided for in OPM Financial Letter F-98-07.

**Overtime Costs.** OMB Circular No. A-11 requires that unfunded retirement costs be determined using base pay. Title 5, United States Code, Section 8331(3) (5U.S.C.8331[3]), "Government Organization and Employees," 1996, and OPM Civil Service Retirement System and Federal Employees Retirement System Handbook, April 1998, defines basic pay as the rate fixed by applicable law and regulation to include in part, locality-based comparability payments, night differential pay, and premium pay. Base pay does not include allowances, bonuses, holiday, military, and overtime pay. However, the USD(C) methodology prescribed in the August 1997 memorandum included overtime pay in the computation for calculating the amount of unfunded retirement and postretirement health benefits costs. Overtime pay should not be included in determining unfunded costs because it is excluded as a factor of base pay.

**Percentages Used to Calculate Unfunded Costs.** For FY 1998, USD(C) used a combined civilian retirement and postretirement health benefits costs percentage of 16.7 percent. The USD(C) determined the 16.7 percent cost factor by using the total composite costs for civilian retirement and accruing

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<sup>5</sup> Civilian salary is base pay rate fixed by applicable law and regulation.



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retiree health benefits, Social Security, and Thrift Savings Plan contributions of 23.7 percent, as specified in OMB Circular No. A-76. From that 23.7 percent, the USD(C) subtracted DoD employer contribution amounts of 7 percent, as prescribed by 5 U.S.C. 8334, "Deductions, Contributions, and Deposits," August 20, 1996, to derive an unfunded cost factor of 16.7 percent. However, the methodology prescribed in OMB Circular No. A-76 is for preparing cost comparisons to determine whether acquiring a product or service through in-house, contract, or interservice support agreement resources is more advantageous for the Government. The methodology in OMB Circular No. A-76 is not prescribed for determining full cost of providing goods or services to the public; that methodology is prescribed in OMB Circular No. A-11. In addition, OMB Financial Accounting Standards Advisory Board Statement No. 5 requires that the methodologies used to compute civilian retirement and postretirement health care benefits costs be calculated separately, because each uses a different employee base.

**Civilian Retirement Cost Factor.** OMB Circular No. A-11 establishes a cost factor of 17.2 percent, for use in computing civilian retirement for employees covered under CSRS, and a cost factor of 10.7 percent, for employees covered under FERS. Because the 17.2 percent exceeds the 8.51 percent agency funded contribution already included in the standard price, 8.69 percent of the CSRS retirement system was not fully funded, or is unfunded. Therefore, for FY 1998, the unfunded retirement portion for CSRS employees should have been 8.69 percent. The unfunded retirement portion for FERS employees should have been zero percent because the standard price included the 10.7 percent agency contribution.

**OPM Postretirement Health Benefits.** The unfunded postretirement health benefit cost factor includes CSRS and FERS. Health benefits costs were not included in the Military Departments stabilized rate. For FY 1998, OPM established the postretirement health benefits cost rate at \$2,529 for each employee enrolled in the Federal Employees Health Benefits program. Because the program is paid by the Department of the Treasury and the agency and employee do not make contributions for postretirement health benefits costs, the entire cost must be recognized as unfunded.

**Military Departments Methodology.** For FY 1998, the methodology the Military Departments used to compute unfunded civilian retirement and postretirement health benefits costs was inappropriate. The methodology included general and administrative expense, material costs, military labor hours, overhead, overtime costs, and inconsistent percentages for computing unfunded civilian retirement and postretirement health benefits costs.

**Army Computation.** The Army computation was inappropriate because it used civilian overtime, fringe benefits, holiday pay, incorrect percentages, and regular military pay. The Army should have computed the unfunded civilian retirement costs using only base pay and the OMB Circular No. A-11 unfunded percent. In addition, postretirement health benefits costs should have been computed using a fixed dollar amount for each employee enrolled in the health benefits program and base pay.

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**Navy Computation.** The Navy computation was inappropriate because it included accelerated labor factors and fringe benefit rates. Acceleration factors should not have been included because base pay does not include allowances and bonuses and holiday, military, and overtime pay. In addition, the Navy should have computed the unfunded civilian retirement costs using only base pay and the OMB Circular No. A-11 unfunded percent. Also, postretirement health benefits costs should have been computed using base pay and a fixed dollar amount for each employee enrolled in the health benefits program.

**Air Force Computation.** The Air Force computation was inappropriate because it included deceleration factors;<sup>6</sup> annual, sick, and other leave costs; fringe benefits; general and administrative costs; and production overhead. Deceleration factors; annual, sick, and other leave costs; fringe benefits; general and administrative costs; and production overhead should not have been included because base pay does not include those costs. In addition, the Air Force should have computed the unfunded civilian retirement costs using only base pay and the OMB Circular No. A-11 unfunded percent. Also, postretirement health benefits costs should have been computed using a fixed dollar amount for each employee enrolled in the health benefits program and base pay.

**Cost Factors that Military Departments Used.** The Military Departments used a percentage of a combination of unfunded civilian retirement and postretirement health benefits costs. The cost percentage for each FMS requisition billed varied among the Military Departments and ranged from 5.28 percent to 16.7 percent. For example, the Ogden Air Logistics Center used 5.28 percent, the Aerospace Maintenance and Regeneration Center used 16.7 percent, and the San Antonio Air Logistics Center used 14.7 percent. The percentages varied in the Air Force because Air Force Materiel Command guidance, "Guide to the FMS Organic DMBA [Depot Maintenance Business Area] Repair and Return Price Estimate and Billing Worksheets," June 8, 1995, (Air Force Materiel Command guidance) allowed Air Force depots to use the USD(C) 16.7 percent. The depots could also compute an alternate percentage for unfunded civilian retirement and postretirement health care benefits costs, based on the depots' prior years unfunded expenses.

## **XYZ Agency - Hypothetical Computation**

To illustrate the effect of the USD(C) and Military Department computations on FMS billings, we developed a hypothetical example using the OMB methodology for unfunded civilian retirement costs and OPM methodology for postretirement health benefits costs. The XYZ Agency will serve as our

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<sup>6</sup> Deceleration factors are rates used for leave and holiday pay that are subtracted from the accelerated labor amount.

hypothetical agency. Using the following computation, as prescribed in OPM Financial Letter F-98-07, we determined that 4.7 percent of unfunded postretirement health benefits costs should be applied to each FMS requisition billed by the XYZ Agency.

Enrollment in Federal Employees Health Benefits Program	150 employees
Multiplied by the OPM cost factor	\$2,529 per employee
Equals enrollment cost	\$379,350
Divided by gross base pay*	\$8,000,000 annual salary
Equals percentage of unfunded postretirement health benefits, per FMS requisition billed	4.7 percent

\*Gross base pay equals 150 employees enrolled in the Federal Employees Health Benefits Program times the annual salary of a GS-12, step 5, of \$53,343.

The cost factors, hours, percentages, and amounts used to illustrate the per requisition effect are shown in Table 1.

Table 1. XYZ Agency Hypothetical Computations			
Factor	Hours	Percent	Amount
Direct labor hours and Costs (base pay)	1,000	N/A	\$25,560 <sup>1</sup>
Overtime hours	500	N/A	12,845 <sup>2</sup>
Military labor	10	N/A	233 <sup>3</sup>
Annual, sick, and other Leave	N/A	25	6,390 <sup>4</sup>
Fringe benefits	N/A	20	5,112 <sup>5</sup>
Material	N/A	N/A	1,000
Production overhead	N/A	N/A	450
General and administrative Costs	N/A	N/A	400
<sup>1</sup> Direct labor cost equals 1,000 direct labor hours times \$25.56 (\$53,343 divided by 2,087 hours).			
<sup>2</sup> Overtime labor cost equals 500 overtime hours times \$25.69 (GS-10 step 1 equals \$35,742 divided by 2,087 hours equals \$17.13 times 150 percent).			
<sup>3</sup> Military pay was computed for an O-4 with 10 years service (\$3,721.20 per month divided by 160 hours per month equals \$23.25 per hour).			
<sup>4</sup> Annual, sick, and other leave equal 25 percent of basic labor costs of \$25,560.			
<sup>5</sup> Fringe benefits equal 20 percent of basic labor costs of \$25,560.			

Based on the methodology prescribed in OMB Circular No. A-11, a rate of 8.69 percent should be used for unfunded retirement costs. To determine a percentage cost factor for unfunded postretirement health benefits costs applicable to each enrolled employee (we assumed 150 employees), we divided the computed enrollment cost by the total annual salary of enrolled employees (we assumed salaries of enrolled employees to be \$8 million [150 employees enrolled in the Federal Employees Health Benefits program times the annual salary of \$53,343]).

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To determine the unfunded civilian retirement and postretirement health benefits costs XYZ Agency charged to each FMS customer, for each FMS requisition billed, the following computation should be used based on OMB Circular No. 11 and OPM Financial Letter F-98-07.

\$17,125	CSRS employees base pay, 67 percent of \$25,560 (100 CSRS employees, and 50 FERS employees)
x 8.69%	unfunded civilian retirement
\$ 1,488	unfunded civilian retirement costs, per FMS requisition billed
\$25,560	CSRS and FERS base pay, 100 percent of \$25,560 (150 total employees)
x 4.7%	unfunded postretirement health benefits
\$ 1,201	unfunded postretirement health benefits costs, per FMS requisition billed.

The combined total of unfunded civilian retirement and postretirement health benefits costs for each FMS requisition billed for the XYZ agency would be \$2,689 for FY 1998. This amount would be chargeable to each FMS customer requisition billed for 1,000 direct labor hours performed by 150 repair depot employees needed to repair FMS items.

## Impact of USD(C) and Military Departments Methodology

The inappropriate methodologies for computing unfunded civilian retirement and postretirement health benefits costs resulted in overcharges and undercharges to FMS customers for each FMS requisition billed at repair depots. We reviewed the methodology at nine repair depots and the USD(C) methodology outlined in the August 27, 1997, memorandum. We reviewed nine repair depots: Aerospace Maintenance and Regeneration Center, Arizona; Corpus Christi Army Depot, Texas; Navy Depot Cherry Point, North Carolina; Navy Depot Jacksonville, Florida; Navy Depot North Island, California; Ogden Air Logistics Center, Utah; Oklahoma City Air Logistics Center, Oklahoma; San Antonio Air Logistics Center, Texas; and Warner Robins Air Logistics Center, Georgia. Our comparison of the hypothetical agency methodology with the nine repair depots showed that for each FMS requisition billed the Army and the Navy repair depots overcharged and one Air Force repair depot overcharged and four undercharged FMS customers for unfunded civilian retirement and postretirement health benefits during FY 1998. None of the nine repair depots reviewed had used the USD(C) methodology. When compared with our hypothetical agency, using the USD(C) computation would have resulted in the FMS customer being overcharged for unfunded civilian retirement and postretirement health benefits costs. A summary of the results of our comparison of the Military Departments methodology with our hypothetical agency is in Table 2 (see Appendix B for details).

<b>Table 2. Computation Results of XYZ Agency Compared to the USD(C) and Military Departments Methodologies</b>			
<b>Prescribed Methodology</b>	<b>Hypothetical Amount Computed Per Requisition Billed</b>	<b>Hypothetical Overcharge/ (Undercharge) Per Requisition Billed</b>	<b>Percent Overcharged/ (Undercharged) Per Requisition Billed</b>
<b>Army Depot</b>			
Corpus Christi Army Depot	\$5,360	\$2,671	99
<b>Navy Depot</b>			
Navy Depot Cherry Point	4,279	1,590	59
Navy Depot Jacksonville	3,936	1,247	46
Navy Depot North Island	3,766	1,077	40
<b>Air Force Depot</b>			
Aerospace Maintenance and Regeneration Center	921	(1,768)	(66)
Ogden Air Logistics Center	1,479	(1,210)	(45)
Oklahoma City Air Logistics Center	2,556	(133)	(5)
San Antonio Air Logistics Center	2,133	(556)	(21)
Warner Robins Air Logistics Center	2,739	50	2
<b>USD(C) Guidance</b>			
USD(C)	6,414	3,725	139

**Army Methodology.** For each FMS requisition billed, the Army methodology was the same at all Army repair depots, regardless of location, and resulted in overcharges to FMS customers for unfunded civilian retirement and postretirement health benefits costs. The Army hardcoded<sup>7</sup> its computations in the Standard Depot System before the 1998 version of OMB Circular No. A-11, OPM Financial Letter F-98-07, and the USD(C) memorandum were issued. In June 1989, the then Headquarters, U.S. Army Depot Systems Command issued an advance change notice to Army Regulation 37-110, "Budgeting, Accounting, Reporting and Responsibilities for Industrial Funded Installations and Activities," August 1, 1980, as guidance to its Army depots prescribing the methodology to use for computing unfunded civilian retirement costs. That methodology was hardcoded into the Standard Depot System in June 1989. All Army repair depots used the Standard Depot System, maintained by the Industrial Logistics Systems Center, Chambersburg, Pennsylvania, for computing the repair costs chargeable to FMS customers.

<sup>7</sup> Hardcoding is programming computations and numbers into a computer system that cannot be altered or changed by the systems' user.

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During FY 1998, the Standard Depot System was programmed with a 16.7 percent rate for unfunded civilian retirement and postretirement health benefits costs. Using the Army methodology at Corpus Christi Army Depot, for each FMS requisition billed, the FMS customers would be overcharged by about \$2,671, or about 99 percent more than the XYZ Agency computation of \$2,689. The overcharge resulted from including indirect civilian labor costs and leave in the computation, as well as using 16.7 percent as the unfunded civilian retirement and postretirement health benefits rate.

**Navy Methodology.** The Navy methodology resulted in overcharges to FMS customers for unfunded civilian retirement and postretirement health benefits costs. The Navy computations were different at the three repair depots contacted or visited, but because of the hardcoding in the Defense Industrial Financial Management System, the three computations resulted in overcharges. The Navy hardcoded its computations in the Defense Industrial Financial Management System before the 1998 version of OMB Circular No. A-11, OPM Financial Letter F-98-07, and the USD(C) memorandum were issued. Navy Comptroller Manual, volume 5, "Navy and Marine Corps Industrial Funds," April 5, 1990, prescribes the methodology Navy depots are to use when computing unfunded civilian retirement costs. That methodology was hardcoded into the Defense Industrial Financial Management System by the Navy. DFAS now has the responsibility for programming the Defense Industrial Financial Management System and the Navy could not change the methodology. Only DFAS could make changes in the methodology. However, the Navy repair facilities were capable of entering the unfunded civilian retirement and postretirement health benefits costs rates each fiscal year.

For each FMS requisition billed, each Navy repair depot inputted different unfunded civilian retirement and postretirement health benefits cost rates into the Defense Industrial Financial Management System to compute repair costs chargeable to FMS customers. Navy Depot Cherry Point used a rate of 16.7 percent, Navy Depot Jacksonville used a rate of 15.4 percent, and Navy Depot North Island used a rate of 14.7 percent for the unfunded civilian retirement and postretirement health benefits costs methodology. The Naval Air Systems Command had not provided oversight of their repair depots to ensure that a consistent unfunded civilian retirement and postretirement health benefits cost factor was computed and input into the Defense Industrial Financial Management System. Using the Navy methodology at Navy Depot Cherry Point, Navy Depot Jacksonville, and Navy Depot North Island, the FMS customers would be overcharged, for each FMS requisition billed, by about \$1,590 (59 percent), \$1,247 (46 percent), and \$1,077 (40 percent) more than the XYZ Agency computation of \$2,689. The overcharges resulted from including accelerated labor factors and fringe benefit rates, as well as using different percentages as the unfunded civilian retirement and postretirement health benefits rate.

**Air Force Methodology.** For each FMS requisition billed, the Air Force methodology resulted in overcharges and undercharges to FMS customers for unfunded civilian retirement and postretirement health benefits costs. The Air Force computations were different at each of the five repair depots that we

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contacted or visited. None of the five Air Force depots had a hardcoded system. The Air Force methodology for computing unfunded civilian retirement costs was prescribed by the Air Force Materiel Command (Air Force Materiel Command guidance). However, only two of the five depots used that guidance. Each of the five depots used different percentages to compute the unfunded civilian retirement and postretirement health benefits costs chargeable to FMS customers, for each FMS requisition billed. The Air Force Materiel Command had not provided oversight of its repair depots to ensure that consistent methodologies and rates were used for computing unfunded civilian retirement and postretirement health benefits costs.

During FY 1998, the Aerospace Maintenance and Regeneration Center Tucson used a rate of 16.7 percent, Air Force Logistics Center Ogden used a rate of 5.28 percent, Air Force Logistics Center Oklahoma City used a rate of 10 percent, Air Force Logistics Center San Antonio used a rate of 14.7 percent, and Air Force Logistics Center Warner Robins used a rate of 14.29 percent for the unfunded civilian retirement and postretirement health benefits costs. Using the Air Force methodology at Aerospace Maintenance and Regeneration Center, Air Force Logistics Center Ogden, Air Force Logistics Center Oklahoma City, and Air Force Logistics Center San Antonio, the FMS customers would be undercharged for each FMS requisition billed by about \$1,768 (66 percent), \$1,210 (45 percent), \$133 (5 percent), and \$556 (21 percent), respectively, less than the XYZ Agency computation of \$2,689. However, using the Air Force methodology at the Air Logistics Center Warner Robins, the FMS customers would be overcharged, for each FMS requisition billed, by about \$50 (2 percent) more than the XYZ Agency computation of \$2,689. The overcharges and undercharges resulted from using deceleration factors; annual, sick, and other leave costs; fringe benefits; general and administrative costs; and production overhead, as well as using the different percentages stated above as the unfunded civilian retirement and postretirement health benefits rate.

**USD(C) Methodology.** The methodology prescribed in the August 27, 1997, memorandum would result in overcharging FMS customers, for each FMS requisition billed, for unfunded civilian retirement and postretirement health benefits costs. The overcharges would result from including overtime costs and using 16.7 percent for the unfunded civilian retirement and postretirement health benefits rate. However, none of the depots we contacted or visited used the USD(C) methodology.

## **Management Comments on the Finding and Audit Response**

**Navy Comments.** The Navy disagreed that its organization used different percentages for computing unfunded civilian retirement and postretirement health benefit costs. The Navy stated that the use of different percentages was not official Navy policy. The Navy forwarded the written USD(C) policy to its major commands in October and November 1997. In addition, the Navy provided the information verbally to several commands that requested further clarification.

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**Audit Response.** We agree that the August 27, 1997, USD(C) memorandum was provided to the Assistant Secretary of the Navy (Financial Management and Comptroller), and that the Navy may have adopted the USD(C) policy guidance and issued it to its major commands for implementation. However, our site visits to Navy repair depots determined that the USD(C) guidance was not implemented and that volume 5 of the Navy Comptroller Manual was the guidance that the repair depots used to compute unfunded civilian retirement and postretirement health benefit costs. We also determined that Navy management was not aware of what the repair depots did with the guidance and thus Navy did not provide sufficient oversight for ensuring that applicable procedural changes for computing unfunded civilian retirement and postretirement health benefits costs were implemented.

## **Recommendations, Management Comments, and Audit Response**

### **1. We recommend that the Under Secretary of Defense (Comptroller):**

**a. Adopt the methodology established in the Office of Management and Budget Circular No. A-11 for computing unfunded civilian retirement costs, and issues guidance to the Military Departments requiring the use of that methodology.**

**b. Adopt the methodology established in the Office of Personnel Management Financial Management Letter F-98-07 for computing unfunded postretirement health benefits costs, and issue guidance requiring that the Military Departments use that methodology.**

**USD(C) Comments.** The Under Secretary of Defense (Comptroller) generally concurred, stating that the unfunded civilian retirement factor will be revised in conjunction with the DoD FY 2000 reimbursable rates.

### **2. We recommend that the Commander, Army Materiel Command:**

**a. Program the methodology established by the Under Secretary of Defense (Comptroller) in Recommendation 1. into the Standard Depot System for computing unfunded civilian retirement and postretirement health benefits costs.**

**b. Rescind the June 1989 change notice to Army Regulation 37-110, "Budgeting, Accounting, Reporting and Responsibilities for Industrial Funded Installations and Activities," August 1, 1980, as guidance for computing Army depots unfunded civilian retirement costs and adopt the methodology and factors established by the Under Secretary of Defense (Comptroller) in Recommendation 1.**

**Army Comments.** The Army did not comment on the draft report.



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**Audit Response.** We request that the Army provide comments on the final report.

**3. We recommend that the Director, Defense Finance and Accounting Service program the methodology established by the Under Secretary of Defense (Comptroller) in Recommendation 1. into the Defense Industrial Financial Management System for computing unfunded civilian retirement and postretirement health benefits costs.**

**DFAS Comments.** The Defense Finance and Accounting Service concurred, stating that the DFAS Defense Industrial Financial Management System Project Office will direct the Systems Engineering Organization Patuxent River to institute the recommended action by April 30, 2000.

**4. We recommend that the Navy Comptroller rescind that portion of Navy Comptroller Manual, volume 5, "Navy and Marine Corps Industrial Funds," April 5, 1990, dealing with the methodology used for computing unfunded civilian retirement and adopt the methodology and factors established by the Under Secretary of Defense (Comptroller) in Recommendation 1.**

**Navy Comments.** The Navy concurred and stated that it forwarded the USD(C) guidance to its major commands. The Navy believed the issuance of that guidance effectively rescinded paragraph 055137 of Navy Comptroller Manual, volume 5, as precedence. The Navy stated it will adopt the forthcoming revised guidance from the USD(C).

**Audit Response.** Although the Navy adopted the Under Secretary of Defense (Comptroller) guidance for computing unfunded civilian retirement and postretirement health benefits costs, and issued that guidance to its major commands, our site visits to Navy repair depots determined that the applicable USD(C) guidance and the USD(C) methodology were not used to compute unfunded civilian retirement and postretirement health benefits costs. Therefore, we believe that the Navy should rescind Navy Comptroller Manual, volume 5, when it adopts and disseminates the revised USD(C) guidance established in Recommendation 1. We request that the Navy reconsider its position and provide additional comments in response to the final report.

**5. We recommend that the Commander, Air Force Materiel Command rescind the "Guide to the FMS Organic DMBA [Depot Maintenance Business Area] Repair and Return Price Estimate and Billing Worksheets," used by Air Force depots for computing unfunded civilian retirement and adopt the methodology and factors established by the Under Secretary of Defense (Comptroller) in Recommendation 1.**

**Air Force Comments.** The Air Force agreed and stated that it will ask the Commander, Air Force Materiel Command to rescind its current guidance and adopt the methodology and factors established, or to be established by the Office of the Secretary of Defense (Comptroller).

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**6. We recommend that the Chief of Naval Operations and the Commander, Air Force Materiel Command establish procedures to verify that consistent methodologies and rates are used in computing unfunded civilian retirement and postretirement health benefits costs.**

**Navy Comments.** The Navy concurred and stated that guidance to verify that consistent methodologies and rates are used for those organizations under the cognizance of the Chief of Naval Operations will be implemented under Recommendation 4. above.

**Air Force Comments.** The Air Force did not comment on the draft recommendation.

**Audit Response.** The Navy comments were partially responsive. Although the Navy rescinded paragraph 55137 of the Navy Comptroller Manual, volume 5, and adopted USD(C) guidance, oversight was not adequate to verify that consistent methodologies and rates were used in computing unfunded civilian retirement and postretirement health benefits at Navy repair depots. We request that the Navy provide additional comments in response to the final report. The Air Force did not respond to the recommendation and oversight actions it will take to verify consistent implementation of revised Air Force Materiel Command guidance. Therefore, we request the Air Force provide comment on the final report.

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## Appendix A. Audit Process

### Scope

We reviewed DoD and Military Departments' directives, policies, and regulations, as well as public laws that were issued from June 1989 through October 1998 related to the FMS depot-level repair program. We interviewed DoD managers who controlled and managed the Military Departments depot-level repair programs. We reviewed depot policy and procedures for establishing time standards, tracking repair items, prioritizing repairs, inspecting FMS items, and addressing safety of flight issues at three repair depots, Corpus Christi Army Depot; Navy Depot Jacksonville, and San Antonio Air Logistics Center. In addition, we reviewed the procedures for computing unfunded civilian retirement costs at those depots and at five additional repair depots, Aerospace Maintenance and Regeneration Center, Navy Depot North Island, Ogden Air Logistics Center, Oklahoma City Air Logistics Center, and Warner Robins Air Logistics Center, to determine whether unfunded civilian retirement costs were properly computed for FMS customers. We judgmentally selected FMS repair requisitions that were completed, in process, or pending from October 1, 1995, through September 30, 1998. We reviewed requisition status reports, financial records, instructions, and procedures pertaining to all aspects of operations and administration for FMS customer repair requisitions at those repair depots. Also, we reviewed financial transaction records processed by the DFAS centers. We did not review the Marine Corps depots because they were not performing repairs of FMS components, modules, and parts for aircraft major end items.

**DoD-wide Corporate Level Goals.** In response to the Government Performance Results Act, DoD has established 6 DoD-wide corporate level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

- **Objective:** Fundamentally reengineer DoD and achieve a 21<sup>st</sup> century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Functional Area. Objective:** Reengineer DoD business practices. **Goal:** Standardize and enhance Working Capital fund operating procedures. (FM-4.2)

**High Risk Area.** The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Infrastructure high-risk area.

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## Methodology

We obtained depot repair program documents and information to support our selection of FMS cases to be reviewed. We used those documents and information as criteria to judgmentally select FMS cases related to the repair of selected aircraft engines, modules, and components.

For the 43 FMS customer repair requisitions, valued at \$11.3 million, that we selected, we reviewed and evaluated the repair execution and billing processes. We compared the depots procedures and processes for FMS repair execution and billing against established USD(C) and Military Department guidance, to determine whether policies and procedures were properly implemented and executed. Also, we determined whether items accepted into the program were properly accounted for and were repaired and returned or replaced in a timely manner.

We contacted DFAS operation locations and centers that supported the repair depots to determine the effectiveness of procedures and processes implemented to bill FMS customers for reimbursement of repair services rendered. We reviewed and evaluated the billing procedures and processes the repair depots implemented to process FMS customer repair bills. We judgmentally selected 25 FMS requisitions, valued at about \$665,000, related to the repair of selected aircraft engines, modules, and components that were completed at the Military Departments' repair depots in FY 1998. We compared billing procedures and processes implemented at the repair depots and at DFAS for those requisitions against established policies and guidance, to determine the accuracy for billing FMS cases. We could not accurately quantify the actual number of FMS requisitions worked during a fiscal year because of varying methods for requisition status reporting and requisition billing implemented at each Military Department repair depot.

**Use of Computer-Processed Data.** We relied on computer-processed data from the Army Standard Depot System, the Navy Defense Industrial Financial Management System, and the Air Forces Depot Maintenance Budget and Management Cost System and Depot Maintenance Production Cost System. We did not test general and application controls to confirm the reliability of the systems because we relied only on the information to determine the magnitude of depot-level repairs and computations for unfunded civilian retirement costs. We tested the computations for accuracy and they were validated; but the methodology was incorrect. Limited testing of the controls did not affect the results of the audit.

**Audit Type, Dates, and Standards.** This economy and efficiency audit was conducted from July 1998 through January 1999. The audit was conducted in accordance with auditing standards issued by the Comptroller General of the United States, and accordingly, included such tests of management controls as were considered necessary.

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**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD and commercial contractors. Further details are available upon request.

## **Management Control Program**

**DoD Directive 5010.38, "Management Control Program,"** August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Controls.** We reviewed the adequacy of the repair facilities management controls over execution of the FMS depot-level repair program. Specifically, we reviewed the Military Departments' management controls over FMS depot-level policies and procedures regarding repair item accountability, workload prioritization and completion, inspection functions, and the direct exchange program. We also reviewed the Military Departments' management controls over calculating and billing the full costs incurred to repair FMS items. We did not assess management's self-evaluation of those controls.

**Adequacy of Management Controls.** The Military Departments' management controls over execution of the FMS depot-level repair program and over calculating and billing for the full costs incurred were adequate in that we identified no material management control weaknesses.

## **Summary of Prior Coverage**

General Accounting Office Report No. GAO/AIMD-97-134 (OSD Case No.1425), "Foreign Military Sales: DoD's Stabilized Rate Can Recover Full Cost," September 18, 1997.

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## Appendix B. Military Department and Under Secretary of Defense (Comptroller) Methodologies

Finding B stated that the unfunded civilian retirement methodologies were different among the Military Departments and the XYZ Agency model. We applied our hypothetical cost factors for that hypothetical agency to the Military Departments' methodologies to show the differences in computation methods of unfunded civilian retirement and postretirement health benefits costs, for each FMS requisition billed, by the Army, the Navy, and the Air Force repair depots we reviewed. In addition, we applied those same cost factors to the USD(C) published methodology to show the effect of using that methodology to compute unfunded civilian retirement and postretirement health benefits costs. We compared the Military Departments' computations with our hypothetical cost factors.

**Army Computation.** All Army repair depots used the standard depot system methodology for computing repair costs chargeable to FMS customers for each FMS requisition billed. We applied our hypothetical cost factors to the Army methodology and compared the results to our XYZ Agency model as follows.

1,510	Direct labor hours (civilian, military regular and overtime)
x .10	Indirect civilian labor rate (hardcoded by Army)
<u>\$ 151</u>	Indirect civilian labor cost
+ 49,906	Direct labor cost (basic, overtime, fringe benefits and leave)
- 12,845	Overtime costs
- 5,112	Fringe benefits costs
<u>\$ 32,100</u>	Direct labor costs
x 16.7%	Unfunded civilian retirement and postretirement health benefits percent
\$ 5,360	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

For each FMS requisition billed, the above computation shows that the Army methodology would result in unfunded civilian retirement and postretirement health benefits costs of about \$2,671 or about 99 percent more than the XYZ Agency computation of \$2,689.

**Navy Computations.** At least three Navy repair facilities, Navy Depots, Cherry Point; Jacksonville; and North Island used the Defense Industrial Financial Management System methodology but applied different percentages for computing repair costs chargeable to FMS customers. We applied our hypothetical cost factors to that methodology and compared the results to our XYZ Agency model as follows.

### Navy Depot Cherry Point

$$\begin{array}{r} \$ 25.56 \\ \times .25 \\ \hline 6.39 \\ \times .01 \\ \hline \$ .0639 \end{array}$$

Direct labor rate  
Civilian leave and holiday rate

Accelerated labor rate  
Accelerated labor costs

$$\begin{array}{r} \$ 25.56 \\ + .0639 \\ \hline \$ 25.62 \\ \times 1,000 \\ \hline \$ 25,620 \\ \times 16.7\% \\ \hline \$ 4,279 \end{array}$$

Direct labor rate  
Accelerated labor costs  
Accelerated direct labor rate  
Direct civilian labor hours  
Direct labor costs  
Unfunded civilian retirement and  
postretirement health benefits percent  
Unfunded civilian retirement and  
postretirement health benefits costs, per FMS  
requisition billed

### Navy Depot Jacksonville

$$\begin{array}{r} 14.7\% \\ \times 59.50\% \\ \hline 8.75\% \\ \times 76\% \\ \hline 6.65\% \\ + 8.75\% \\ \hline 15.40\% \end{array}$$

Unfunded direct and indirect composite percent  
Percent of CSRS employees determined by depot  
Direct civilian labor percent  
Indirect civilian labor percent determined by depot  
Adjusted indirect civilian labor percent  
Direct civilian labor percent  
Unfunded civilian retirement and  
postretirement health benefits percent

$$\begin{array}{r} \$ 25.56 \\ \times 1,000 \\ \hline \$ 25,560 \\ \times 15.40\% \\ \hline \$ 3,936 \end{array}$$

Direct labor rate  
Direct civilian labor hours  
Direct labor costs  
Unfunded civilian retirement and  
postretirement health benefits percent  
Unfunded civilian retirement and  
postretirement health benefits costs, per FMS  
requisition billed

## Navy Depot North Island

\$ 25.56	Direct labor rate
x .25	Civilian leave and holiday rate
\$ 6.39	
x .01	Accelerated labor rate
\$ .0639	Accelerated labor costs
\$ 25.56	Direct labor rate
+ .0639	Accelerated labor costs
\$ 25.62	Accelerated direct labor rate
x 1,000	Direct civilian labor hours
\$ 25,620	Direct labor costs
x 14.7%	Unfunded civilian retirement and postretirement health benefits percent
\$ 3,766	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

For each FMS requisition billed, the above computations show that the Navy methodology and rates would result in unfunded civilian retirement and postretirement health benefits costs of about \$1,590 (59 percent), \$1,247 (46 percent), and \$1,077 (40 percent) more than the XYZ Agency computation of \$2,689.

**Air Force Computations.** At least five Air Force repair facilities, Aerospace Maintenance and Regeneration Center, and Air Logistics Centers Ogden, Oklahoma City, San Antonio, and Warner Robins used different methods and percentages to compute unfunded civilian retirement and postretirement health benefits costs. We applied our hypothetical cost factors to that methodology and compared the results to our XYZ Agency model as follows.

### Aerospace Maintenance and Regeneration Center

\$ 25.56	Direct labor rate
x 1,000	Direct civilian labor hours
\$ 25,560	Direct labor costs
450	Overhead costs
+ 400	General and administrative costs
\$ 26,410	Direct labor costs
x .167	Deceleration rate applied by depot
\$ 4,410	Decelerated labor cost
x .25	Civilian leave and holiday rate
\$ 1,103	Adjusted direct labor costs
+ 4,410	Decelerated labor costs
\$ 5,513	Direct labor costs
x 16.7%	Unfunded civilian retirement and postretirement health benefits percent
\$ 921	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed



### Ogden Air Logistics Center

\$ 25,560	Direct labor costs
1,000	Direct material costs
400	General and administrative costs
596	Other direct costs
+ 450	Overhead costs
<u>\$ 28,006</u>	Direct labor costs
x 5.28 %*	Unfunded civilian retirement and postretirement health benefits percent
\$ 1,479	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

\*Unfunded pension expense of \$23.97 million divided by total depot cost of \$454.1 million determined by the depot. The depot computed the rate using the Air Force Material Command Guidance for determining unfunded civilian retirement and postretirement health benefits costs.

### Oklahoma City Air Logistics Center

\$ 25,560	Direct labor costs
x 10 %	Unfunded civilian retirement and postretirement health benefits percent
\$ 2,556	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

### San Antonio Air Logistics Center

\$ 25,560	Direct labor costs
450	Overhead costs
+ 400	General and administrative costs
<u>\$ 26,410</u>	Direct labor costs
: 1.45	Deceleration rate applied by depot
\$ 18,214	Decelerated labor costs
x .25	Civilian leave and holiday rate
\$ 4,554	Civilian leave and holiday costs
+ 18,214	Decelerated labor costs
<u>\$ 22,768</u>	Direct labor costs
x 63.74 %	CSRS employees percent
\$ 14,512	Direct labor costs
x 14.7 %	Unfunded civilian retirement and postretirement health benefits percent
\$ 2,133	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

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Warner Robins Air Logistics Center

\$ 31,950	Direct labor costs (basic costs plus civilian annual, sick, and other leave costs)
x 60%	Percent of CSRS employees determined by depot
<u>\$ 19,170</u>	Direct labor costs
x 14.29%	Unfunded civilian retirement and postretirement health benefits percent
\$ 2,739	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

For each FMS requisition billed, the above computations show that the Air Force methodology and rates resulted in unfunded civilian retirement and postretirement health benefits costs of about \$1,768 (66 percent), \$1,210 (45 percent), \$133 (5 percent), and \$556 (21 percent) less and about \$50 (2 percent) higher than the XYZ Agency computation of \$2,689.

**USD(C) Computation.** The USD(C) published methodology for computing unfunded civilian retirement and postretirement health benefits costs as stated in the August 27, 1997, memorandum, follows.

\$ 25,560	Direct labor costs
+ 12,845	Overtime costs
<u>\$ 38,405</u>	Direct labor costs
x 16.7%	Unfunded civilian retirement and postretirement health benefits percent
\$ 6,414	Unfunded civilian retirement and postretirement health benefits costs, per FMS requisition billed

Had the Military Departments used the USD(C) methodology, for each FMS requisition billed, the FMS customer would have been overcharged by about \$3,725 (139 percent) more than the XYZ Agency computation model of \$2,689.

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## **Appendix C. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Deputy Under Secretary of Defense (Logistics)  
    Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
    Deputy Chief Financial Officer  
    Deputy Comptroller (Program/Budget)  
Assistant Secretary of Defense (Public Affairs)

### **Department of the Army**

Deputy Under Secretary of the Army (International Affairs)  
Auditor General, Department of the Army  
Commander, Aviation and Missile Command  
Commander, Army Materiel Command  
Commander, Army Security Assistance Command

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Assistant Secretary of the Navy (Research and Development and Acquisition)  
Director, Navy International Programs Office  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Deputy Under Secretary of the Air Force (International Affairs)  
Auditor General, Department of the Air Force  
Commander, Air Force Materiel Command  
Commander, Air Force Security Assistance Command

### **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Finance and Accounting Service  
Director, Defense Logistics Agency  
    Commander, Defense Contract Management Command

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## **Other Defense Organizations (cont'd)**

Director, National Security Agency  
Inspector General, National Security Agency  
Director, Defense Security Cooperation Agency  
Inspector General, Defense Intelligence Agency

## **Non-Defense Federal Organizations**

Office of Management and Budget  
General Accounting Office  
National Security and International Affairs Division  
Technical Information Center

## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Management, Information, and Technology,  
Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations,  
Committee on Government Reform

## Office of the Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

APR 26 1999

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT  
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Depot-Level Repair of Foreign Military Sales Items  
(Project No. 8LG-0038)

This office generally concurs with the intent of recommendation 1 cited in the subject report. The unfunded civilian retirement factor will be revised in conjunction with the Department's FY 2000 reimbursable rates. A list of recommended editorial changes to the report is included as an attachment.

My point of contact for this action is Mr. Tom Summers. He may be reached by e-mail: [summerst@osd.pentagon.mil](mailto:summerst@osd.pentagon.mil) or by telephone at (703) 602-0299.

  
Nelson Toyer  
Deputy Chief Financial Officer

Attachment

OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
COMMENTS ON DoD INSPECTOR GENERAL DRAFT AUDIT REPORT  
DEPOT-LEVEL REPAIR OF FOREIGN MILITARY SALES ITEMS  
PROJECT NO. 8LG-0038

General Comments

1. Page i, Executive Summary, second paragraph, line 3. Add the words "or credit" between the words "cash" and "sale" and on line 4, delete the words "grant, lease, or loan." Reason: The Foreign Military Sales (FMS) program is cash or credit sale; it is not made up of grants, leases, or loans. The grants, leases, or loans are properly considered a part of the Security Assistance Program, of which FMS is a subset.
2. Page 2, Background, third paragraph (Billing FMS Cases), line 1. Delete the letter "s" in "Regulations" and add the letter "s" to the word "prescribe." Reason: There is only one DoD Financial Management Regulation.
3. Page 2, Background, third paragraph, line 13. Revise the sentence (beginning at the end of the line) to read (new wording underlined): "The DFAS reimburses the Military Departments from advance funds held on deposit in the FMS Trust Fund and then bills the FMS customer...." Reason: To identify the actual process and in particular, that funds are on hand for payment prior to the billing (or accounting) statement.
4. Page 2. The final paragraph neither accurately represents the process being described nor is relevant to the report. Therefore, recommend that the paragraph be deleted in its entirety.

# Department of the Navy Comments



DEPARTMENT OF THE NAVY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
1000 NAVY PENTAGON  
WASHINGTON, D.C. 20380-1000

MAY 7 1999

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

Subj: DEPARTMENT OF DEFENSE INSPECTOR GENERAL AUDIT DRAFT REPORT  
PROJECT NUMBER 8LG-0038, "DEPOT LEVEL REPAIR OF FOREIGN  
MILITARY SALES ITEMS", 19 February 1999

Encl: (1) Department of the Navy Response to Recommendations

You provided a copy of the subject draft audit report for our review and comments. Enclosure (1) provides our response to the recommendations.

My point of contact for questions relating to this issue is Mr. Michael Tracht, FMO-314, (202) 685-6748.

*Gladys J. Commons*  
**GLADYS J. COMMONS**  
Principal Deputy  
Assistant Secretary of the Navy  
(Financial Management and Comptroller)

Copy to:  
ASN(RDA)  
CNO  
CMC  
NAVINGEN

Department of the Navy  
Comments on  
DODIG Draft Audit Report on Depot-Level Repair of Foreign  
Military Sales Items (Project No. 8LG-0038)

**Finding B: Recouping Unfunded Civilian Retirement and  
Postretirement Health Benefits Costs**

The Under Secretary of Defense (Comptroller) (USD(C)) published an inappropriate methodology and the Military Departments used inconsistent and inappropriate methodologies for computing unfunded civilian retirement-and-postretirement health benefits costs charged to foreign military sales (FMS) customers at repair depots. The methodologies USD(C) and the Military Departments used were inappropriate because USD(C) relied on Office of Management and Budget (OMB) Circular No. A-76, not on OMB Circular A-11 and Office of Personnel Management (OPM) Financial Management Letter F-98-07. In addition, USD(C) and the Military Departments had different percentages for computing unfunded civilian retirement and postretirement health benefit costs. Also, the Navy and the Air Force had not provided sufficient oversight of their depots to insure that consistent methodologies and rates were used for unfunded civilian retirement and postretirement benefit costs. As a result, the Army may have overcharged FMS customers by as much as 99 percent, the Navy repair depots may have overcharged FMS customers by as much as 59 percent, and the Air Force repair depots may have overcharged FMS customers by about 2 percent and undercharged FMS customers by as much as 66 percent for unfunded civilian retirement and postretirement health benefits costs during fiscal year 1998.

DON Response: Non-Concur. The statement, "OUSD(C) and the Military Departments had different percentages for computing unfunded civilian retirement and postretirement health benefit costs", does not reflect official Department of the Navy (DON) policy. The DON uses the percentages from current USD(C) guidance for recovering unfunded civilian retirement and post retirement health benefit costs. This policy, from USD(C) memoranda dated 27 August 1997 and 1 October 1997 was forwarded to DON major commands on 3 October 1997 and 6 November 1997, respectively. These memoranda directed Commands to apply the 16.7 percent rate specified in the USD(C) guidance to civilian salary and overtime costs, effectively the unaccelerated labor rate. Additionally, this information was provided verbally to several commands that requested further clarification.

Recommendation 4: We recommend that the Navy Comptroller rescind that portion of Navy Comptroller Manual, Volume 5, "Navy and Marine Corps Industrial Funds," April 5, 1990, dealing with the

*Encl (1)*



methodology used for computing unfunded civilian retirement and adopt the methodology and factors established by the Under Secretary of Defense (Comptroller) in Recommendation 1.

DON Response: Concur. The DON forwarded USD(C) guidance for recovering unfunded civilian retirement to major commands on 3 October 1997 and 6 November 1997. The issuance of this guidance effectively rescinded Navy Comptroller Manual, par. 055137, as the DOD 7000.14-R, DOD Financial Management Regulation, takes precedence. Finally, the DON stands ready to adopt and disseminate the forthcoming revised guidance from USD(C).

Recommendation 6: We recommend that the Chief of Naval Operations and the Commander, Air Force Materiel Command establish procedures to verify that consistent methodologies and rates are used in computing unfunded civilian retirement and postretirement health benefits costs.

DON Response: Concur. Guidance for activities under the cognizance of the Chief of Naval Operations will be implemented under recommendation 4.

C:\mydocuments\word\DDIGSLG-0038.doc

# Department of the Air Force Comments



Office of the Undersecretary

DEPARTMENT OF THE AIR FORCE  
WASHINGTON, D.C. 20330

18 MAY 1999

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

FROM: SAF/IA

SUBJECT: DoDIG Draft Report, Depot-Level Repair of Foreign Military Sales Items, 19  
February 1999, (Project No. 8LG-0038)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force Comments on subject report.

We agree with the audit findings of the Inspector General. We will ask the Commander, AFMC to rescind the current guidance of using one of two different methods as described in the audit and adopt the methodology and factors established, or to be established, by OSD (C).

Point of Contact in IAX is Mr. John Lucacos, 703-588-8365, DSN 425-8365.

JEFFREY B. KOHLER, Brig Gen, USAF  
Asst Dep Under Sec of the Air Force  
International Affairs

cc:  
SAF/FMB  
SAF/IAXF

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE

1931 JEFFERSON DAVIS HIGHWAY  
ARLINGTON, VA 22240-5291

APR 20 1990

MEMORANDUM FOR DIRECTOR, READINESS AND LOGISTICS SUPPORT  
DIRECTORATE, OFFICE OF THE INSPECTOR GENERAL,  
DEPARTMENT OF DEFENSE

SUBJECT: Audit Report on Depot-Level Repair of Foreign Military Sales Items (Project No. 8LG-0038)

Our comments to the subject report are attached.

Further questions regarding this memorandum can be directed to Captain Sarah Brown, SC, USN, DIFMS Project Officer at (703) 604-2251, DSN 664-2251.

*Lydia Moschkin*  
Lydia Moschkin

Director, Systems Integration

Attachment  
As Stated

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**SUBJECT:** Audit Report on Depot-Level Repair of Foreign Military Sales Items (Project No. 8LG-0038)

**Recommendation 3.:** We recommend that the Director, Defense Finance and Accounting Service program the methodology established by the Under Secretary of Defense (Comptroller) in Recommendation 1 into the Defense Industrial Financial Management System for computing unfunded civilian retirement and postretirement health benefits costs.

**DFAS Response:** Concur. The DFAS Defense Industrial Financial Management System (DIFMS) Project Office will direct the Systems Engineering Organization Patuxent River (the DIFMS Central Design Agency) to institute the methodology as explained in recommendation 1.

- a. Adopt the methodology established in the Office of Management and Budget Circular No. A-121 for computing unfunded civilian retirement costs.
- b. Adopt the methodology established in the Office of Personnel Management Financial Management Letter F-98-07 for computing unfunded postretirement health benefits costs

**Estimated Completion Date:** Programming September 30, 1999  
Release to production April 30, 2000

## Audit Team Members

The Readiness and Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title:** Depot-Level Repair of Foreign Military Sales Items

**B. DATE Report Downloaded From the Internet:** 09/13/99

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level:** Unclassified

**E. Distribution Statement A:** Approved for Public Release

**F. The foregoing information was compiled and provided by:**  
DTIC-OCA, Initials: \_\_VM\_\_ Preparation Date 09/13/99

The foregoing information should exactly correspond to the Title, Report Number, and the Date on the accompanying report document. If there are mismatches, or other questions, contact the above OCA Representative for resolution.